

Message Text

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72

ACTION EB-11

INFO OCT-01 ARA-16 EA-11 ADP-00 INT-08 SCEM-02 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 EUR-25 DODE-00 PA-03 USIA-15

PRS-01 RSR-01 /191 W

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R 182157Z JUL 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8055

INFO AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMEMBASSY TOKYO

AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 3736

E.O. 11652: GDS

TAGS: ENRG, EFIN, EC

SUBJECT: SWISS FIRM OFFERS \$5 PER BARREL FOR ROYALTY OIL

REF: A) QUITO 3315; B) QUITO 3441

1. MINISTER OF NATURAL RESOURCES JARRIN OPENED THE ENVELOPES CONTAINING BIDS FOR THE GOE'S 16 PERCENT ROYALTY SHARE OF CRUDE SHORTLY AFTER 4 PM DEADLINE JULY 16 AND IN THE PRESENCE OF REPRESENTATIVES OF THE 18 BIDDING FIRMS. SWISS FIRM ERINAM AG MADE HIGH OFFER OF \$5.01 PER BARREL. THE GOE WILL PROBABLY AWARD THE CONTRACT TO ERINAM, BUT THIS MUST AWAIT CABINET APPROVAL. THE GOE ESTIMATES THE VOLUME AT 900,000 TO 1,200,000 BARRELS PER MONTH. THE TERMS OF THE BIDDING SPECIFY THAT EACH TIME THE PETROLEUM REFERENCE PRICE IS INCREASED, THE ROYALTY CRUDE PRICE WILL RISE BY AN EQUAL AMOUNT.

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2. THE HIGH OFFER SURPASSED THE WINNING BID OF \$3.61 IN THE PRE-

VIOUS TENDER, NULLIFIED JUNE 19, BY \$1.40 PER BARREL. THE MAJORITY OF OFFERS WERE IN THE RANGE OF \$4.12 TO \$4.35, AMONG THEM THOSE OF SUMITOMO, THE PREVIOUS WINNER, HIDECA, PETROBRAS, PETROPERU, PHILIPS, SUNOCO AND ATLANTIC RICHFIELD. LOW BID WAS \$3.70.

3. THE REVENUE FROM ROYALTY CRUDE IS EARMARKED 50 PERCENT FOR THE MILITARY, 47 PERCENT FOR THE ELECTRIFICATION INSTITUTE (INECEL), AND 3 PERCENT FOR THE PROVINCE OF ESMERALDAS. IF THERE ARE NO ADJUSTMENTS TO THIS DISTRIBUTION, THE VALUE OF THE MILITARY'S SHARE WOULD DOUBLE, FROM \$18.5 MILLION (ANNUAL RATE AT THE CURRENT REFERENCE PRICE OF \$3.60 PER BARREL) TO \$38.5 MILLION. INECEL WOULD BENEFIT TO A SIMILAR EXTENT. HOWEVER, THE MILITARY AND INECEL WOULD GAIN PARTLY AT THE EXPENSE OF THE CENTRAL GOVERNMENT'S GENERAL REVENUES, SINCE EXPORT AND OTHER TAXES NOW APPLICABLE TO THE ROYALTY CRUDE WOULD CEASE TO BE PAID. THE BUDGET DIRECTOR IS SEEKING TO HAVE THE EQUIVALENT OF EXPORT TAXES ON THE 16 PERCENT ROYALTY CRUDE PAID INTO GENERAL REVENUES, BUT HE IS MEETING RESISTANCE FROM THE MILITARY AND INECEL.

4. COMMENT: JARRIN IS TAKING PAINS THIS TIME TO HEAD OFF ANY ALLEGATIONS THAT THE BIDDING WAS RIGGED. RUMORS OF THAT NATURE WERE INSTRUMENTAL IN THE GOE DECISION TO NULLIFY THE EARLIER BIDDING.

5. ACCORDING TO A RELIABLE MINISTRY OF NATURAL RESOURCES SOURCE, THE GOE IS NOT CONTEMPLATING AN INCREASE IN THE REFERENCE PRICE FOR ANOTHER SEVERAL MONTHS. THE MINISTRY CONSIDERS \$5 PER BARREL FOR SMALL QUANTITIES REASONABLE IN TERMS OF PRESENT EUROPEAN MARKET CONDITIONS BUT NOT REPRESENTATIVE OF U.S. MARKETS. CHAPLIN

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